

REPORT
OF THE
ALBERTA COMMISSIONERS
ON
THE AMERICAN COMMISSION FOR
THE STUDY OF AGRICULTURAL CREDIT

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THE HONOURABLE DUNCAN MARSHALL,
Minister of Agriculture
Alberta

Sir,—

I have the honor to present herewith the report of your Commissioners to the American Commission on Agricultural Credit.

Your obedient servant,

H. M. TORY.

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I. INTRODUCTION.

The two commissioners appointed by the Government of Alberta to the American Commission joined that Commission in New York on April 26th, 1913.

The American Commission consisted of sixty-eight members representing the following States of the Union: California, Connecticut, Colorado, Florida, Georgia, Illinois, Indiana, Massachusetts, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nevada, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and the District of Columbia. The following Provinces of Canada were also represented: Alberta, Nova Scotia, Ontario, Saskatchewan. In addition to the American Commission proper there was also a special Commission of Seven Members appointed by the Government of the United States.

The Commission outlined for itself a comprehensive programme, viz., the investigation of all branches of rural activity as affected by financial institutions. Special attention, however, was given to those financial institutions which have grown up,

either under government direction or through co-operative agencies, to meet the needs of agricultural communities.

The Commission accordingly divided itself into four sections, on Finance, Production, Distribution and the Organization of Agriculture and Rural Life. Special attention was given to the relation of rural finance to the other branches of the investigation. The Alberta Commissioners attached themselves to the sections on Finance and Production, giving their chief attention to these two related problems.

The Commission sailed from New York on the 26th of April on the S.S. Saxonia and returned on July 26th. During the course of the enquiry the following countries were visited, either by the whole Commission or by special committees selected for the purpose: Italy, Hungary, Austria, Germany, Russia, Denmark, Belgium, Norway, Holland, France, Spain, Great Britain, and Ireland.

Through the good offices of the American Ambassadors in the various European Capitals the Commission was able to get intimate information from expert men, both government officials and managers of financial institutions, and was moreover permitted to see these institutions at work and to observe as well the life of the communities which they serve.

The report of the American Commission so far as it has been completed consists of six documents presented herewith:

- I. Evidence and Information Collected in Europe.

- II. Observations on the General Condition of
Agricultural Credit in Europe.
- III. Evidence and Information Collected in
America.
- IV. Land Mortgage or Long Term Credit—
special report of the United States
Commission with suggested Legislation
for the United States.
- V. Personal or Short Term Credit—a special
report of the United States Commission.
- VI. A Bibliography—a statement of the docu-
ments collected and consulted in the
preparation of the volume of evidence.

These documents have been published by the United States Senate as Senate Documents in sufficient numbers to give to each Commissioner a limited number of copies. Further copies will be available for distribution at a later date. It is unnecessary to state that in the distribution of these documents the Alberta Commissioners were treated exactly as if they were citizens of the United States.

Even a casual study of the documents presented herewith will be sufficient to convince any one of the magnitude of the work undertaken and also of the thoroughness with which it was carried out. The volume of Information and Evidence is probably the most complete compilation of material facts ever made on the subjects of Agricultural Credit and Agricultural Co-operation, affording a comparative study of the methods pursued in the leading countries of the civilized world.

In the collecting and sifting of the evidence the

Alberta Commissioners did their full share. The preparation for publication, a heavy task in itself, was undertaken by a committee specially drafted from the Commission, the result being submitted to a full meeting of the Commission at which the Alberta members were present.

The report prepared by the Alberta Commissioners is intended to be a brief outline study of the main features of the material contained in document 1, Information and Evidence. Nothing new is added except in so far as suggestions with respect to plans for the Province of Alberta may differ from those in operation elsewhere. Our purpose will be served, if the reader is enabled to get in broad outline the main features of the institutions described. For a comprehensive study of the whole subject it will be necessary to go to document 1 referred to above.

Further, we shall not concern ourselves with details of administrative methods. These methods vary widely, due largely to the fact that the institutions described have grown up almost spontaneously out of the needs of the people who use them. In the volume of Evidence will be found not only comprehensive statements of these methods, but also translations of constitutions and by-laws of such types of institutions as are unfamiliar to us in this country.

II. EUROPEAN METHODS FOR FACILITATING AGRICULTURAL CREDIT.

One of the outstanding facts about modern Europe is the number and variety of its financial institutions. Private, public and co-operative organizations have grown up everywhere, often with a view to meet special needs or to solve special financial problems. In every country, the ordinary joint stock bank is of course to be found. Side by side with these are to be found savings banks working under definite restriction; rural banks specially suited to do business with the rural communities; public utility banks, that is banks doing a non-profit making business; land mortgage banks whose activities are often confined to land mortgage business or to credit based on land mortgages; general joint stock loan companies; State banks doing business on a profit making basis in the interest of the State; and finally co-operative banks specially regulated to assist and stimulate co-operative institutions.

Institutions of all the above mentioned types give consideration to the problems of agriculture and make loans on the basis of farm land security. We shall discuss mainly, however, the agricultural credit institutions: that is institutions whose function is to deal with problems of agriculture specifically and whose aim is to give the agriculturist money at rates of interest in relation to the security offered. These institutions give to the farmer the advantage of their knowledge of the value of his security and have resulted in establishing agricultural credit on a rational basis. As a consequence of their oper-

ation the small farmer has been taken out of the hands of the usurers, whose rates of interest fifty years ago ranged from ten per cent. to fifty per cent. and has been made the cheapest borrower in the country. These institutions have done more than this; they have had a regulating influence on the rate of interest charged by all the other financial institutions doing business with the farmer. As an illustration, one might take the position of the Land Mortgage Credit Associations or the Landschaften in Germany. At the end of 1910, the financial institutions in Germany lending money on mortgages had invested about \$6,500,000,000 in various types of mortgage security. Of this amount over \$2,000,000,000 was in farm mortgages. Of this latter amount the Landschaften held \$850,000,000, about 13 per cent. of the whole, or about 40 per cent. of that invested in mortgages. The rate of interest, however, was practically that fixed by the Landschaften. We shall return again at a later stage of this report to the question of the rate of interest and how it is regulated. For the present we shall devote our attention to the description of those institutions whose special aim is to facilitate agricultural credit, dealing with those of a co-operative or state-aided type, or a combination of both, and also with types of private institutions.

Studied with respect to their purpose these institutions fall under two general heads:

- I. Those giving short term or personal credit.
- II. Those giving long term or mortgage credit.

The former is designed to meet the current or annually recurring needs of the farmer, the latter to meet his capital requirements. We shall examine these in turn.

I. SHORT TERM OR PERSONAL CREDIT.

Of the institutions giving short term or personal credit the following are the most important.

1. The Raiffeisen System of Banks or Credit Societies of Germany.
2. The Schulze-Delitzsh Banks. *Page 28*
3. The Credit Agricole of France.
4. Modifications of 1 and 2 found in other parts of Europe as the Rural Banks and Popular Banks of Italy, Hungary, and other countries.
5. Certain institutions for short term credit on basis of mortgage valuation.

1.—The Raiffeisen System of Credit Societies

These Societies are based on what are known as the "Raiffeisen Principles," see Evidence page 400.

(1) Their legal foundation is the unlimited liability of all their members for all liabilities of their particular society.

(2) Their aim is to improve the condition, alike material and moral, of their members.

(3) They admit only members from a distinct district, which is advisedly as narrowly circumscribed as is consistent with its being self-supporting; therefore there can be no persons members at once of more societies than one.

(4) They collect no entrance fee.

(5) So far as the law of the land permits, they issue no shares; wherever the law makes shares

obligatory, they limit a member's holding to one share only, which must be small; and should dividend be declared on such share, such dividend must not in rate exceed the interest charged upon loans.

(6) The only officer remunerated for his services is the "accountant" (the employee who keeps the accounts and actually handles the money); members of the managing committee and the council of inspection are expected to discharge their duties without remuneration.

(7) All profit resulting is conscientiously carried to an indivisible common fund belonging to the society as such.

The task which credit societies set themselves is to provide the cash required for advances and credits to be accorded to members; furthermore, to provide for the supply of goods required by members and to make any other arrangements for the promotion of the material welfare of their members which may appear desirable; and the aim which they pursue is to come to the aid of those who are materially weak and to further the intellectual and moral well-being of their members rather than to earn a profit. The foundation upon which they are built up is that of Christianity and loyalty; it is a standing rule that at society gatherings neither denominational nor political subjects may be touched upon in discussion.

These societies are not allowed to engage in any speculative business whatever. Advances and credits are permitted only to members, on personal security, and for objects held to be economically legitimate, in the shape either of specific loans or

else of current accounts. Adequate security must be provided for every loan or credit to be granted. And in respect of every loan the term for repayment is fixed in advance. The length of time and the amount of the installments for repayment are in every case proportioned to the object of the loan and the power of the borrower to repay within a given time. No loan is granted without consideration of the object for which it is asked and the capacity and title of the borrower to answer for a credit. Borrowers are, on their side, entitled to repay at any time. In respect of certain contingencies the societies reserve to themselves the right of calling in the loan.

When the system is fully organized it consists of a group of these local societies, each an independent unit, but federated into a Central Bank. The Central Bank acts as a clearing house for the group. It makes it possible to confine the action of the local society to a small group in a fixed district, thus making collective action possible. The Central Bank also serves as a purchasing agency for agricultural requirements and a selling agent for agricultural products.

The Central Bank is a joint stock company, but its shares are held only by the local societies or certain officials of the institution.

The objects of the bank are:

- (1) To carry on banking and credit business, more particularly as a means of equalizing temporary shortness or oversupply of cash in local banks.

- (2) To provide for collective purchase of agricultural requirements, as well as for collective sale of agricultural produce. Such business has now been transferred to seven distinct organizations, each operating within its own particular district.

The money required for the business of the bank is provided as follows:

- (1) By the issue of shares.
- (2) By deposits received and loans raised.
- (3) By commissions charged and a margin of interest on business transacted.
- (4) By profits on the dealing in goods and by similar income.

The money so raised is applied as follows:

- (1) In credits given in current account to local co-operative banks, societies, central banks formed for particular countries or provinces, co-operative productive societies and central business organizations for co-operative societies.
- (2) For carrying on a business in goods.
- (3) For discounting acceptances and making advances on approved securities in conformity with the practice of the Imperial Bank.
- (4) For any other purpose in harmony with the general objects of the institution.

The profits realized are applied as follows:

- (1) To the accumulation of a reserve fund.
- (2) To the payment of a dividend on shares, which must not in any case exceed four per cent.

Each local society has a credit fixed by the managing committee of the Central Bank. This credit is based on the valuation of the possessions of the members of the society, the liability being unlimited, that is, each member is jointly responsible for the whole of the obligations of the local society to which he belongs. The borrowing power of each member of a local society is fixed by the local society.

The adjustment of assessment to determine the maximum credit of the local society is made every three years.

The business transacted between the local society and the central bank is as follows: "Should the funds collected locally by the branch offices prove insufficient for their daily requirements, those offices are to apply to the central bank for the balance needed. Such amount is furnished either in cash out of the balance in hand, or else by means of a draft on the Imperial Bank. Surplus funds held by the branch offices are in the same way paid in to the central bank. Each branch office is required to send in to the central bank every week a return of its transactions and holdings in cash, and every month a full return showing the whole state of its business. By such means the central bank is enabled to exercise a steady and effective control over the branches. In addition, each branch office is subjected once every year to a minute inspection carried out, in conjunction with the chief inspector of the union, by a committee nominated by the council of inspection of the central bank.

"In this manner the Agricultural Central Bank

for Germany has, in spite of its formation as a joint stock company, been enabled to retain its genuinely co-operative character, transacting business in its wider sphere practically on the same co-operative lines as the local credit societies do on a smaller scale. Its being registered as a joint stock company facilitates its business with the money market, and provides for it, through its share capital, a working fund which can not be affected by any changes occurring which influence local societies. Keeping the money transactions with societies in its own hands, it is in a position to charge lower rates than societies would be saddled with were the business to be carried on through the medium of independent provincial intermediate institutions; and by means of its branch offices it secures to itself all that information respecting the financial status of local societies which is imperatively needed for the appropriate apportionment of credit. It is, therefore, a central bank, based entirely upon self-help and self-government, and combining in itself all the advantages both of a centralized and a decentralized clearing house for money."

As already mentioned, these societies are not only co-operative agencies for obtaining credit, but also for the purchase and supply of farm requirements, and for the sale of farm produce. Within it are organizations for the purchase of fertilizers, feed stuff, farm machinery and the collective sale of all kinds of farm produce.

✓ In Germany there is a general Union of the Raiffeisen Societies with other types of co-operative societies such as co-operative dairies, etc. All un-

der the caption of the "General Union of Rural Societies".

This Union sets before itself the following tasks:

- (1) Co-operative propaganda. To carry on such, the union issues twice a month its principal organ, viz., the Agricultural Co-operative Journal. Also, once a year a "Raiffeisen Almanack"; moreover, many pamphlets and leaflets collectively composing the "Raiffeisen Library"; and furthermore, larger works, to form a collection of textbooks on rural co-operation.
- (2) Information on co-operative subjects to be given to inquirers from both Germany and abroad.
- (3) The collection and publication of statistics referring to co-operative societies of the Raiffeisen organization.
- (4) Watching over the maintenance and observance of Raiffeisen principles in the Raiffeisen societies.
- (5) The training of efficient employees for Raiffeisen societies, more particularly of accountants, by means of suitable institutions.
- (6) Imparting information and advice to the societies affiliated in all matters of co-operative or legal practice. Under the latter head it maintains a special department for legal consultation and advice.
- (7) Laying down uniform rules for the inspection of societies and enforcing their observance.
- (8) Inspection of its sections (provincial sub-unions) and in some cases also of societies.
- (9) Provision for insurance. The union pays particular attention to this business and has standing agreements with quite a number

of insurance companies, which allow substantial rebates to its members.

✓ There are now about 17,000 of these local credit societies in Germany, founded on a co-operative basis. On January 1st, 1910, there was a total membership of 1,477,766 in 14,993 of these societies. The turnover for the year 1910, as shown by reports from 14,729 of these institutions, amounted to \$1,300,000,000, while the outstanding for the fixed periods, including overdrafts, amounted to \$460,000,000, and the savings deposits at that date amounted to approximately the same sum. At the same time there was a current account deposit of approximately \$54,000,000.

At the close of the year 1912 there were twenty-five thousand five hundred and seventy-six co-operative societies in Germany, as follows:

98 Central co-operative societies.

16,927 Loan and savings banks.

2,409 Co-operative societies for purchase and sale.

3,488 Co-operative dairies.

3,654 Other co-operative societies.

A comparison with the population and the acreage under cultivation shows one society for every 2,494 inhabitants and one for every 3,365 acres of land.

The above figures will serve to show the ramifications of this mode of promoting credit throughout the German Empire, and as we shall see later, it has equal ramifications in other parts of Europe.

✓ The two main causes, common in all European

countries half a century ago, which led to the establishment and growth of this system of credit were:—

(1) The inability of the farmer, especially the small farmer, to secure from the ordinary banks his working capital on terms suited to his occupation. ✓

(2) The usurious rates charged by the small money-lender or local dealer from whom he obtained credit. ✓

With regard to the first of these causes, it is hardly necessary to point out that money borrowed by the farmer for use in his business does not usually give him a quick return. His period of investment is at least nine months or a year, as he has to await the processes of nature to give him his dividends. He is subject to losses by accident, disease and fluctuation in prices, causes over which he has no control, which make special financial arrangements necessary, often covering a considerably longer period than that required to produce his yearly crop. Short credits of three months, even with the right of renewal, are to him both inconvenient and embarrassing. Further, the commercial banks, following the ordinary methods suitable to commerce, to a large extent failed to appreciate the farmer's position; and because of his inability to meet specific banking practices, these banks regarded him, the small farmer especially, as an undesirable customer. This was largely because the individual was unable to marshal his assets in a manner to satisfy the bank of his reliability. ✓

The second cause follows from the first. The farmer not being able to borrow his working capital through the ordinary banking channels, either be- ✓

✓ came the prey of the small money-lender, whose loans were made at high rates of interest, or he became dependent for credit on the local merchants in the towns. This was true in every country in Europe before the co-operative societies began to serve the farmers' needs. The cost of credit was as great in the latter case as in the former. It is seldom
✓ realized that perhaps the most expensive form of credit is that supplied by dealers. The dealer usually considers it necessary to protect himself against loss by increasing the price of his goods, if goods are supplied on credit, or by charging an abnormal rate
✓ of interest, if money is advanced. The result is the same in either case, the loss of independence on the part of the borrower and a consequent loss of self-respect.

✓ The credit societies have practically banished from the communities where they are organized these forms of usury. Any farmer of good standing in his community who has established a reputation for honesty may obtain his working capital on reasonable terms. In 1910, the 14,729 loan societies had out on loan \$460,000,000, at interest rates
✓ from 4 to 5 per cent., and as will be seen later, for periods suited to the needs of the borrower.

✓ All this has not been accomplished by magic. It has followed on a determined and systematic effort running through a long period of years to establish credit on a basis of security which reduces to a minimum the liability of loss. In other words, this has been made possible because the security offered is of such a character as to make serious loss to the lender almost impossible.

A few words of explanation with regard to the nature of the security on which this system rests are necessary.

The essential facts are:—

- (a) The unlimited liability of all the members of the society. ✓
- (b) The money borrowed must be put to productive uses. ✓
- (c) The operation of the individual society is limited to a small well-defined area. ✓

With regard to (a), it has already been pointed out that the legal foundation of the system is the unlimited liability of the members of the societies. By this is meant that the members of the individual local society undertake liability for the engagements of the society to the whole extent of their property. It is a joint and several liability for the whole of the society's obligations. If, for example, a loss be made which cannot be met out of the available resources of the society, a special call in the form of a per capita levy may be made on the members. This levy is recoverable by legal processes, just like an ordinary tax. If, therefore, the membership of the society is made up of men of known responsibility, and the business of the society is limited in extent by the total financial responsibility of its members, the chance of loss to persons advancing money to the society is practically nil.

There is also this further security: the members of the committee of the society are personally responsible if they violate in any way the business regulations of the organization. . An official audit of each society is regularly made.

While such security may satisfy the persons or institutions advancing money to the society, the question naturally arises: What of the members who become liable in case of loss? The answer is found in the two additional facts mentioned above—(b) the money borrowed must be put to productive uses, and (c) the operation of the society is limited to a small well-defined area.

✓ If the money be put to productive uses only, e.g., to the improvement of the land, the purchase of implements, the improving of seed, or the purchase of stock, the consequence is the condition of the borrower is improved by the transaction. So to improve the borrower's position is the definite aim of the society. Speculative enterprises are, therefore, not permitted either on the part of the society lending or the person borrowing.

The purpose of limiting the area of the society is to confine its operations to a small group of people whose circumstances are well known to at least a fair proportion of the membership. The interest of the community is thus bound up in the institution as the whole membership becomes interested in seeing that the money is put to the use for which it was obtained. Should the borrower fail to keep his agreement the loan is immediately recalled. The tendency, therefore, is not only to improve the position of the borrower, but to develop a spirit of thrift and responsibility as well.

The following statement from a recent work on the subject by Mr. Herrick, American Ambassador to France, will serve to further elucidate this phase of the subject:

"The members of a Raiffeisen society, it must be remembered, are all neighbors, carefully selected on account of their good characters, industrious habits and friendly dispositions. The shiftless and quarrelsome are barred. All have some visible and tangible assets, their farms, or, if they be only tenants, livestock and equipment, so that if one of them receives a loan, he will likely be able to repay it, because the officers who are intimately acquainted with him know beforehand whether he is good for the amount, and besides they see that he uses the loan for the specified productive purpose for which it was granted. But if their judgment should be wrong, or the crop or venture fail, there are many expedients to which the society may resort before calling on the members' unlimited liability. In the first place, if the property of the borrower brings nothing on execution, the society may sue his indorsers. Then, if by any chance a deficiency remains, it may raise the interest rate on other loans to cover the loss, since they are all recallable on a few weeks' notice; or, it may charge a little more for its banking services or raise the selling price of supplies. This would not materially affect members, because supplies are bought and sold at wholesale and services are rendered without charge, or at a lower figure than that of non-co-operative institutions. Thus step after step may be taken before the unlimited liability is reached, and it is protected from creditors until the society has exhausted all its profits and means of increasing its profits and all its capital, reserve and foundation fund. Such an eventuality is highly improbable, because specula-

tion is forbidden and offers no temptation to officials who cannot receive any gain and must suffer along with the other members for any losses resulting from a risky transaction, while if mismanagement should appear it could not long continue, since the members have the right of summary dismissal of offending officials, and also of dissolving the society if they find it in failing circumstances and winding up its affairs.

V "The Raiffeisen society is a perfect organ for facilitating the flow of capital and cheapening the credit for agriculture. The record of the thousands of these little banks in Germany of never having lost a cent belonging to the millions of people who have dealt with them during the past fifty years is unparalleled in the history of finance. It is so marvellous as to be unbelievable by those not acquainted with the facts. The hundreds of millions of dollars which they put in circulation during that period rescued the German farmers from usury, poverty and apathetic despair, made them their own bankers, merchants and instructors, raised them in the scale of life, and put them in the way of helping themselves and their neighbors. Raiffeisen made the dollar beneficent without interfering with its usefulness. He was the first man to understand the credit value of farmers and to utilize it for their financial needs. The Schulze-Delitzsch credit societies require their large shares to be paid in small weekly or monthly instalments in order to enforce saving, and they strengthen the habit of thrift thus formed by arousing a cupidity for big dividends; consequently the interest rate on their loans is usually as

high as that charged by ordinary banks. But Raiffeisen would not tolerate dividends, because they benefited the more prosperous members at the expense of the borrowers, and interfered with the development of a true spirit of mutuality within the society. As a result of this absence of the spirit of lucre, fraternity reigns supreme in his societies, and the interest rate on loans is often as low as that on the safest kind of securities. Raiffeisen was opposed to a capital stock, because he thought that the best place for farmers to put their savings was in the land, and he considered that periodical payments on long-time loans was as effective a way to encourage thrift as periodical payments on shares."

One word with regard to the form of the loan; It is usually made on a promissory note or a personal bond with at least two sureties. Money, however, may be lent without surety, if the borrower is able to deposit collateral of recognized value. Mortgages may be accepted, but it is not usual. In 1910 over 70 per cent of the loans made were made on promissory notes with sureties, 20 per cent. on mortgages, the remaining 10 per cent. on other forms of security. ✓

The amount of the individual loan depends entirely upon the responsibility of the borrower and on the nature of the security offered. In 1910, over 376,081 loans were made by over 4,000 societies. ✓ Of these loans 16.2 per cent. were for less than \$25; 27.5 per cent. for sums between \$25 and \$75; 15.7 per cent. for loans from \$75 to \$125; 16.9 per cent. for sums between \$125 and \$250; 11.9 per cent. for

sums from \$250 to \$500; the balance being for larger sums.

✓ The period for which the loans are made vary in different societies and according to the nature of the loan. All societies make loans for at least one year. Arrangements may be made for periods up to five years; special loans may be made covering a longer period up to ten years. In 1910, 75 per cent. of the loans made by the Raiffeisen Federation were for periods of one to ten years, the amounts being over 70 per cent. of the total.

✓ The terms of repayment are arranged when the loan is made and are usually very easy. Generally speaking payments are made by regular instalments. Loans made for one year are repayable at the end of the year, for a longer period the instalments cover a proportionate amount, a five-year loan, for example, being repaid in five annual instalments. Unless special circumstances render it necessary, all payments must be promptly met. The right to recall on a notice of from one to three months is reserved in case the borrower violates any of the terms of his engagement when the money is borrowed. J

One of the greatest advantages which these societies offer to the rural population is that under certain restrictions there is offered an absolutely safe place for depositing surplus earnings at a rate of interest in proportion to the earning power of the money so deposited. Each society is permitted to receive deposits, subject only to the restriction that the total deposits received and the total loans made, as well as the size of the individual loan, must be

fixed each year by a meeting of the members of the society.

That these societies have afforded a perfectly safe depository for the small savings of the people, the following statement from Mr. Cahill's report will be sufficient proof.

"It has been the boast of the German rural societies of the Raiffeisen type that no money has ever been lost by them; this statement has not meant that the societies, as such, have not lost money on rare occasions by fraud on the part of officials and by loss of interest, or of capital advanced, but that depositors or creditors have never lost their money. When sureties, or other security taken for loans, were insufficient to meet the debt of a defaulter, the ordinary assets, such as reserves and share-capital, were drawn upon, and, finally, the liability of the members, when realized, always proved adequate. This boast has remained justified to the present time; as regards depositors, one eminent Union director, with a long and special experience of credit societies, remarked to the writer that no case had come to his knowledge in which depositors in rural credit societies had suffered loss."

If any further evidence were needed to show the position of these societies as savings banks it may be found in the following figures: In 1910, the 14,729 societies referred to above had on deposit about \$455,000,000 on savings account, and \$50,000,000 on current account, an amount greater than the total outstanding loans. The rate of interest paid on deposits varies from three to five per cent., and is generally about one-half of one per cent. more than that paid by the commercial banks.

2.—The Schulze-Delitzsch System.

- The Schulze-Delitzsch system resembles the Raiffeisen System in that it embraces a group of
- ✓ local societies organized for credit purposes and also a central bank which serves as a clearing house for the local organizations. The principles, however,
 - ✓ upon which the bank is operated differ somewhat from the Raiffeisen System. These banks were originally started to meet the credit requirements of small traders, and employees and artisans in the towns and not for the purpose of farm credit. They do not restrict the area of their operations so narrowly as do the Raiffeisen banks. They are all based upon share capital and pay dividends. There is no indivisible reserve for the purposes of maintaining credit as in the case of the Raiffeisen banks. The co-operative principles upon which they operate are self-help, self-government and self-responsibility. These banks have in recent years extended their
 - ✓ operations into the country districts, so that now a considerable number of their patrons are farmers. At the end of 1911 there were 641,429 members in about one thousand societies. Over 26 per cent. of
 - ✓ the membership was returned as independent farmers, gardeners, foresters and fishermen. There is one other outstanding difference, and that is, since the membership of any local society may extend for a considerable area, there is not the possibility of the same supervision of their credits, and hence from the point of view of the farmer they are less efficient. The personal relationships among the members are on an entirely different basis from

those in the case of the Raiffeisen system. Further, they reject the principle of unpaid management, and are usually based upon some form of limited or multiple liability. They are really small local joint stock company banks, planned to serve the special needs of the small borrower.

Like the Raiffeisen System these banks have a double object. They aim to encourage thrift among the membership by giving them a secure place of investment for small savings, and also to extend credit to those who may desire it. It was for the purpose of encouraging thrift that the founder of the system insisted on capital shares to be purchased by the members of the society, and on which dividends were to be paid. In order to secure members among those with small earning capacity, shares are payable in small monthly instalments, sometimes as low as twelve cents per month. There is also an entrance fee, varying in different societies from \$2.50 to \$10.00. This also may be paid in monthly instalments.

Speaking generally, money is lent only for productive purposes, although there is a tendency to be less rigid in this regard than formerly. The following paragraph taken from the original instructions of the founder shows the point of view:

"Do not forget that your object should be to borrow to produce, that is, to give a plus value to the money you have borrowed so that you may be able to pay it back with interest and some profit. But never borrow for consumption, as is frequently the case with wage-earners, who render themselves liable to default. Let your union be strictly a credit

association among producers, and small producers if possible."

It was stated above that these banks are really small joint stock company banks. There is this outstanding difference, however, between them and the ordinary joint stock bank. In the latter case the charter of the bank fixes the capital and shares when once issued cannot be recalled. In the Schulze-Delitzsch banks any member may withdraw his capital investment by giving three months' notice once his obligations are paid up. The entrance fee, however, remains a part of the capital of the bank, and cannot be withdrawn. The capital of the individual bank, therefore, varies from time to time according to the number of its shareholders.

In addition to the membership fees, which are retained as a part of a permanent reserve, a reserve fund is created out of a part of the profits on operation. This fund must reach in a given time ten per cent. of the capital. Until this amount is reached twenty per cent. of the annual profits may be put to this use, the balance being used for dividends. Unlike the Raiffeisen banks, there is no restriction as to the dividends paid. These banks prefer to pay larger dividends to shareholders as a means of attracting capital.

The system of making loans is similar to that of the Raiffeisen societies. Only members can borrow. The amount lent to an individual member depends on the rating he receives from the committee of management after a full enquiry as to his standing. This enquiry, which is rigidly made, is conducted with respect to character as well as to solvency.

The loan is usually made on a promissory note secured by two endorsers. Advances are also made on current account, the total amount of credit having been previously established. Promissory notes are usually for a period of three months, renewable when necessary; current accounts are closed every six months. As in the Raiffeisen system, prompt meeting of obligations is insisted upon.

3.—The Credit Agricole of France.

The agricultural credit system as worked in France is the outstanding example in Europe of a credit system involving co-operation among borrowers either on the principle of limited or unlimited liability and State aid. It is a State-aided co-operative system.

This system was created by a law passed in 1894 which took for its nucleus of organization the small unions and agricultural syndicates already in operation in local communities. The unit of organization like that of the Raiffeisen system is the small group in the community organized for the purpose of facilitating the credit of the group. Such groups may organize on the basis of limited liability of all its members, in which case the individuals are not responsible for the debts of the whole, or they may organize on the principle of unlimited liability when the local group thus form an instrument of credit of each individual. The system is highly specialized and includes only the farmers of the community. The local group thus forms an instrument of credit.

Previous to 1894 the same conditions prevailed in France that prevail today in Canada, viz., the rate

of discount was high and the period for which a loan was made was short. The government therefore intervened to place financial aid at the disposal of these credit organizations and to fix terms of repayment based on the requirements of the agricultural communities. The money for this purpose was found as follows:

The charter of the Bank of France having expired in 1896, was renewed by the government under certain conditions favorable to agriculture. The conditions were: First, that the Bank of France must advance to the government the sum of 40,000,000 francs, about \$8,000,000, free of interest, to use in subsidizing the rural credit organizations. Second, that it pay annually a certain portion of its yearly profits as an advance for agricultural credit. This conditional advance was to be not less than 2,000,000 francs, about \$400,000. It has varied between 4,000,000 francs (\$800,000) and 5,000,000 francs (\$1,000,000) annually. The law of 1896 fixed the annual advance from profits as twelve and one-half per cent. of the net profits on discount business done by the Bank of France. Three years ago when this charter was again renewed this percentage was increased to 14 2-7 per cent. when the discount rate was 3½ per cent., and to 16 2-3 per cent. when the discount rate was 4 per cent.

In 1896 a commission was created, composed of members of the Senate, representatives of the local banks, directors of the Bank of France, and certain other persons, through whom the funds thus provided should be distributed. The distribution takes place through a group of regional banks.

These regional banks correspond somewhat to the central bank of the Raiffeisen system. Each is located so as to serve a group of communities. The money provided by the Bank of France up to the present has amounted to 130,000,000 francs (\$26,000,000). It is estimated that by 1920 this sum will have reached the total of 200,000,000 francs (\$40,000,000). Ultimately, the original 40,000,000 francs must be paid back to the Bank of France, but the balance remains as a capital for the use of the regional banks in giving credit to the local societies.

At present each of the regional banks receives from the government through the Bank of France four times the amount of its paid-up capital. This sum is deposited by the regional banks with the Bank of France as security for discounted paper.

There are at present one hundred of these regional banks in France, reaching about four thousand local institutions. The Bank of France conducts a regular discount business with all the one hundred regional banks. It will thus be seen that the whole scheme of agricultural credit is linked into the Bank of France, which is the bank of issue for the country. When one remembers that the total area of France is considerably less than the Province of Alberta, one appreciates how completely the system of agricultural credit is decentralized in the interests of the local communities.

These regional banks, although fostered by the State, are not State banks. They are private institutions receiving State aid on condition that they place themselves under State control. The assist-

ance granted by the State stimulated their development, so that today the system embraces the whole nation.

In the operation of these banks three forms of credit are granted:

- (1) Short term personal credit.
- (2) Long term collective credit.
- (3) Long term personal credit.

(1) Short Term Personal Credit.

This form of credit is given generally for a period up to one year. It is strictly personal; only the endorsement of some one of known responsibility is required. The local association or bank takes the responsibility of recommending and guaranteeing the loan. It is always made for a special purpose, such as the purchase of fertilizers, etc. The recommendation then passes on to the regional bank, which makes the loan direct to the person. Should the regional bank not have the money it discounts with the Bank of France. The pledge is a promissory note for three months, renewable up to one year. The rate of interest varies from 3 to 5 per cent.

During the year 1912, \$17,000,000 was loaned in this way by the regional banks, of which \$12,000,000 was supplied by the State from the Bank of France. The one hundred regional banks in France have accumulated a reserve fund of \$1,000,000 during the few years of their existence; they are administered at an average cost of \$1,000 per year. There is a membership of about 200,000 in the 4,000 local banks, an average of some 50 in

each. About 1,000 of the local banks operate on the principle of unlimited liability; the remaining three thousand have limited liability.

(2) Long Term Collective Credit.

The main purpose of this form of credit is to promote the prosperity of the farmers with small holdings. It makes it possible for a group to unite for the production, conservation or marketing of the products actually produced by the members of the association. The members must be really engaged in production. The rate of interest on this form of credit must not exceed 4 per cent. The period of the loan must not exceed twenty-five years. The total loans to one society are limited to twice the capital of the society. Outstanding loans on this type of credit amount to over \$2,000,000.

(3) Long Term Personal Credit.

The following statement from M. Vinreux, of the credit Foncier, will explain this kind of credit:

"The law of 1910, providing for individual long term agricultural credit, is the latest stone in the structure of agricultural credit in France. This form of credit is granted by the local banks through the regional banks, which receive funds for this purpose out of the advance made for the purposes of agricultural credit by the Bank of France. It is only granted to small agricultural holdings, for the purpose of the law is to attach the small peasant farmer to the soil. The value of the loan is not to exceed 8,000 francs (\$1,600).

"The maximum period for which the loan runs

is fifteen years, and is only allowed in the case of young farmers. The purpose is to assist the small farmers to purchase holdings, and to encourage young men who have finished their military service to take up a small farm. Credit under this system is also granted for the purpose of transforming a farm, for instance, from a tilling to a grazing farm. It is also granted for reconstituting a farm, as for example, if one is destroyed by flood a loan will be granted for the purpose of its rehabilitation.

"These loans are extinguishable by amortization. The rate of interest is as a rule 2 per cent. The security required is of several kinds, the principal one being a mortgage on the farm. Other securities, such as life insurance policies or personal indorsement, will be accepted.

"The law has only been in operation two years, but over 12,000,000 francs have already been loaned under this system of long term individual credit. Having already proved a success, the law will undoubtedly give better results in the future, and will be a powerful influence in the upbuilding and strengthening of the small peasant holdings."

One further word with regard to these small local societies or banks: They differ somewhat from both the German types. They sell shares as do the Schulze-Delitzsch banks, but only to persons who are already members of some professional agricultural syndicate or agricultural co-operative insurance association. A society is not permitted to do business until one-fourth of its subscribed capital is paid up. While these societies may receive deposits, the maximum must be fixed by the Articles of Associa-

tion. Unlike the German societies, the withdrawal of a member does not terminate his liability until the obligations assumed during his membership have been settled. Further, the principle of one man one vote does not apply, voting being based on shares held. In addition, loans may be made by the local society from its own funds to farmers, for productive uses, who are not members. The regional banks, however, with which the local society is affiliated, is not permitted to discount loans made to non-members. Lastly, no State aid is given to the local bank as such. All State aid is given to the regional banks, which make loans directly to the person endorsed by the local society.

4.—Modifications of 1 and 2 Found in Other Parts of Europe

Many variations of the foregoing types of credit institutions for personal credit are found in various parts of Europe. Nearly every country has found some modification necessary to suit its own requirements.

Italy.

In Italy personal credit is granted by both State and co-operative institutions. The aid of the State, as in France, generally finds its way to the borrower through these co-operative institutions. By means of special legislation the government of Italy has made provision to the extent of over \$14,000,000 for agricultural loans at reasonable rates of interest, a maximum of 6 per cent. being charged.

The co-operative banks of Italy are based on

the two conceptions before mentioned, viz., those of the Raiffeisen and Schulze-Delitzsch.

These systems, as applied to Italy, are known as:

- (1) **People's Banks**, organized under the direction and inspiration of Luigi Luzzatti; and
- (2) **The Rural Banks**, organized under the direction and inspiration of Leone Wollenborg.

The inspiration in each case, however, came from Germany.

(1) The People's Banks

The People's Banks, founded by Luzzatti, are but an application of the Schulze-Delitzsch principle to a new environment. As they deal largely with the commercial, industrial and agricultural middle class, we will leave them with a mere statement of their field of operation.

(2) The Rural Banks

These banks, founded by Wollenborg after the Raiffeisen plan, seek to satisfy in Italy the same class of people who are served by their prototype in Germany, the small agriculturist. In an address to the American Commission, the position of these banks in their relation to the rural communities was stated as follows by Luzzatti, the founder of the People's Banks:

"The Rural Bank, for instance, which arose without capital, rich only in its invisible treasure of mutual trust and human solidarity, is the fruit of the modest, unrecognized virtues of the country folk, bound together by bonds of mutual affection, who assist and watch over each other with the subtle

vigilance of neighbors. And lo and behold, these humble folk, void of economic lore, have accomplished a miracle—due to the fact that a moral and not a material impulse guided their work—the miracle of creating capital out of nothing. They have succeeded in coining their simple good faith and their honor, and in transforming into concrete credit—so rebellious to all idealistic considerations—promises of payment guaranteed only by their obscure immortal souls. And now in Germany, and in all the other countries which have followed in its footsteps, the business transacted by these banks, founded without capital, and which have laboriously built up their own reserve funds, amounts to several billions each year, and they represent the billionaires of agrarian poverty.”

The economics of these banks was stated by Wollenborg himself to the Commission in the following words:

“Suppose you have before you 100 small working farmers; they all possess the qualities of honesty, industry and labor capacity; this is their only capital. Now, a capitalist having a hundred such men before him might with safety, under certain conditions, make them a loan of 50 francs each. The conditions with which the capitalist has to reckon with are these: Of these 100 men, some will certainly be afflicted with sickness, death or lack of employment. It is a well-known fact that some of these men will certainly suffer from these causes, but it is impossible to say which man it will be, whether the tenth, fiftieth or hundredth man. It is impossible, in short, to foretell which individual of the group will

be incapacitated and thus rendered incapable of repaying his loan. But one thing is certain, it will not be the whole group—only a certain proportion. Past experience indicates that out of 100, two individuals are likely to be incapable of repaying their loan, while the others will be able to meet their obligations.

“Now, in order to meet the liability, the group must undertake to become responsible for the two members who are likely to be unable to pay; they must become, in short, severally and collectively responsible for the total loan made to the group. There will thus be 98 men to repay the loan made to the 100. They will thus be able to assume responsibility for a loan of 49 francs each instead of 50, for they will have to assume responsibility for the 2 per cent. who will be unable to pay, and, by making themselves collectively responsible for the loan, they will be able to make it for 49 francs multiplied by 100. It is thus seen that the mathematical formula on which these banks are able to secure their capital is nothing more than an application of the same principle which governs insurance. Therefore, this principle of unlimited liability is the first principle underlying the rural banks. The other principle is that of limitation of the area of operations, restricting it to certain villages or localities, and this limitation of area of operation also constitutes the justification of the principle of unlimited liability. It would not, indeed, be fair to expect a man to make himself responsible for a loan, the use of which was beyond his control. But, when the loans are strictly limited to people residing in the

same locality, all can become vigilant and act as inspectors for their own protection. And you will find that inspection thus exercised by the members of the rural banks is far superior to any government inspection, since each man has been rendered personally liable and is acting as inspector in his own interest. As one of the farmers once said to me: 'We are 100, all acting as spies on the others to see that nobody does anything wrong.' "

It is a remarkable fact that in thirty years these banks have not lost one cent.

The following facts show the method of doing business:

- (a) Loans are only made for stated purposes.
- (b) The membership is confined to a small locality.
- (c) Loans are for three months, renewable only if applied to the purpose specified.
- (d) The liability is unlimited.
- (e) There is no foundation capital.
- (f) They accept deposits from members and non-members.
- (g) Loans range from \$10 to \$200.
- (h) Loans are made on security of endorsement.

There are about 2,000 of these banks in Italy, of which two-thirds are under the control of the Catholic Church.

Other Countries.

In nearly every other country in Europe similar institutions exist for the promotion of agricultural credit. The multitude of the institutions would

almost startle one. They are found in Austria, Hungary, in Denmark, in Holland, in Belgium, in Switzerland, in Spain, in Great Britain and Ireland. Everywhere in recent years they have sprung up, based largely on common principles, but differentiated to suit the communities where they arise.

It is not too much to say that these institutions have been one of the most potent factors in improving rural conditions in Europe. As stated by one enthusiast: "The use of credit in agriculture may be compared to the use of water." If the water is brought into the field at the right time, in the right way, and in proper quantities, it will be valuable; but if the field is flooded, or if the water is applied at the wrong time, it will be destructive.

In the same way, if credit be applied to a good productive purpose it becomes a blessing to the community.

5. Certain Institutions for Short Term Credit on Basis of Mortgage Valuation.

With regard to institutions doing short term credit on a basis of mortgage valuation, the discussion connected therewith will be found under "Mortgage Institutions."

The facts already given are sufficient to show that these institutions have succeeded in Europe beyond the most sanguine expectations of their promoters. In less than half a century, from exceedingly small beginnings, they have become comparable in size and efficiency with the great commercial institutions of the countries where they are found. To cite an individual example:—In the year 1866

the Peoples Bank of Milan began business on a co-operative basis with a capital of only \$140, \$20 of which was contributed by Luzzatti, by whom it was founded. The founder did all the work himself without compensation. In 1909 this institution had a membership of 27,774; a capital of \$1,923,000; reserve of \$961,955; deposits of \$32,729,000; and a turnover for the year of \$535,693,000. During that period 736 similar institutions have arisen in Italy with a membership of over 500,000; capital and reserve of over \$31,000,000; deposits amounting to \$200,000,000; with a total turnover for 1909 of over \$320,000,000, of which \$100,000,000 represented loans to farmers. ✓

Two questions naturally arise: (1) Are the conditions favorable to the growth of such institutions found in our Province? (2) Would such institutions be suited to our need? A sufficient answer to the first question will be found in a statement of the conditions which favored their growth in Europe. The answer to the second question is self-evident. Such institutions flourishing in our midst would be a great boon to the communities so favored.

But to return to the conditions favoring their growth. Apart from the two causes mentioned when discussing the Raiffeisen system—the unsuitability of the commercial banks and the high rates of interest charged—there exist in all the countries mentioned certain conditions of a social character ✓ which made possible the growth of these institutions. The following are perhaps the most important:—

- (1) A dense population with common needs.
- (2) A fixed population with settled occupations.
- (3) An intimate knowledge of each other on the part of a large percentage of the population growing out of long acquaintance, common occupations, and common needs.
- (4) The community life so common all over Europe.
- (5) An abundant supply of money available as soon as the security of the institutions was established.
- (6) The practical idealism which moved the promoters through a whole lifetime to continue their personal effort until the desired end was achieved.

✓ It is hardly necessary to state that most of these conditions do not exist in this province. In the first place our population is scattered over a wide area as compared with any European country. The German Empire may be taken as an example. The total area of Germany is 50,000 square miles less than the area of this province, but it contains 66,000,000 inhabitants. Under such conditions sufficient people of some means and standing can be found in a very small area to form a local society, and within a comparatively small area a central bank for a group of locals could be organized.

✓ In the second place the people of the province have not in the main, the advantage of long settlement and long standing family acquaintanceship, while many have not yet established themselves

sufficiently to make co-operation in financial matters with their neighbors possible.

Further the constant shifting of population which is yet going on amongst us would certainly have a tendency to render such institutions insecure unless supervision of a most expert and critical character was applied. ✓

Further still, it is doubtful if a class spirit sufficiently strong could be built up to give such institutions the backing which is necessary. ✓

Lastly, it is questionable if, at this stage of our history, men of the calibre required to manage such institutions can be found, who would be willing to devote themselves to the task, in the common interest. ✓

European co-operative institutions were made possible by the self-sacrificing devotion of a few able men who thought of their fellows rather than of themselves. It will require similar devotion on the part of men of similar type to bring to pass similar results in this country. ✓

Against what has been said in the last paragraph and to conclude this section of the report it should be pointed out that much has been accomplished in the direction of founding peoples' banks in the Province of Quebec because in M. Desjardin a person of the desired type has been found.

II.—LONG TERM OR MORTGAGE CREDIT.

We now turn our attention to the second group of institutions, viz., those giving long term or mortgage credit.

Of the institutions giving long term or mortgage

credit the following are the most important and will be described in some detail:—

1. **The German Landschaften or Land Mortgage Association.**
2. **The German Mortgage Credit Banks.**
3. **The German Savings Banks.**
4. **The Credit Foncier of France.**

Similar institutions found in other parts of Europe which have a local application or which are varieties of one or the other of the above will be referred to only when by so doing we can remove difficulties.

1. **The German Landschaften or Land Mortgage Association.**

Of these institutions there are twenty-three in Germany having a total of outstanding loans of \$850,000,000. The following concise and accurate description is from the report made for the Saskatchewan Government by the Agricultural Credit Commission.

"The Landschaften are mutual loan associations restricted to a province or district and based upon the security of landed property. The name is derived from the German word for province or district. The institution was suggested by Buring to Frederick the Great in 1767, and was designed to emancipate the landowners of a particular district from the necessity of borrowing money directly from creditors. The fundamental idea consists in replacing single mortgages which are the subject of direct negotiation between debtor and creditor by a system which places an intermediary between land-

owners seeking credit and capitalists seeking investments.

"The Landschaften is formed with the object of borrowing money jointly. It issues to borrowers bearer-bonds in which not the borrowers but the Landschaften itself appears as debtor. These bonds are disposed of on the exchange or privately and their price is subject to rise and fall in the same way as the price of any other commercial paper. The borrower receives from the Landschaft not cash but an interest yielding bond which may pass from hand to hand. For this the borrowing landowner is debtor to the Landschaft, and for the same the Landschaft is debtor to the holder of the bond. The borrower must pay interest and a certain proportion of the principal promptly at definite intervals to the Landschaft, and the Landschaft at definite intervals must pay interest to the holder of the bond. After due notice the borrower may on regular days of payment pay to the Landschaft any sum in excess of the prescribed amount, and after due notice the Landschaft may withdraw its bonds at their face value. So long as the land pledged as security is not deteriorating in value and the payments due are being promptly met, the Landschaft may not call in its loan, and, in the same way, the holder of the bond is debarred from demanding a cash equivalent from the Landschaft. The borrower may reduce his debt by presenting bonds which he has purchased in the open market and receive credit for their face value. The Landschaft may retire its bonds by purchasing them in the open market when they

stand below par, or by withdrawing them by lot at their face value when they stand above par.

"The holder of the bond has only a personal claim against the Landschaft. His bond is secured by the following provisions:—

- (1) Bonds may not be issued in excess of the total amount of mortgages bearing equal interest.
- (2) Mortgages are never granted beyond two-thirds of the value of the land estimated with the utmost care after an exact valuation.
- (3) The amount of debt is being constantly reduced by amortisation.
- (4) The total amount of the reserve fund and property of the Landschaft is liable for all claims.
- (5) In the final analysis should the funds of the Landschaft prove inadequate to pay the claims of the bondholders, the incorporated landowners are responsible in some cases with the whole amount, in other cases with a certain proportion of their properties to meet the claims of bondholders.

The Landschaft bond, which is payable to the bearer, has for the investor this great advantage over a common mortgage, that it can be realized at any time. On account of the liability of the Landschaft and the general guarantee of the landowner borrowers it offers a better security than the ordinary mortgage. The concentration of agricultural interests calls forth an offer of capital that

enables the Landschaft to lend to the landowners at lower rates and under more favorable conditions than would be otherwise possible. The Landschaft does not carry on its business for gain. It is an association of borrowers, not of lenders, and aims to get loans on as easy terms as possible. Whatever capital it gathers comes from savings in the cost of administration.

"The Landschaften are public corporations. They are under state supervision. This is exercised in the first instance by a specially appointed royal commissioner; in the second, by the minister for agriculture, crown lands and forests. Within the limits prescribed by the state, the Landschaften are autonomous and manage their affairs on the principle of self-government. The employees of the Landschaft have the standing of state employees. Ordinary business is carried out by special officials with legal training who have for Landschaft business public authority to attest documents. Only these syndics and lower employees receive salaries. All other officials serve without pay. These honorary officers must have property qualifications as members of the Landschaften, and are chosen either by certain committees of the loan societies or by the general landtag.

"The Landschaft is seen at its best in Prussia. Up to 1911-12 the Prussian Landschaften had issued mortgage bonds and advanced loans on mortgages to the total amount of \$750,000,000:

\$105,000,000 at 3 per cent.

\$500,000,000 at 3½ per cent.

\$125,000,000 at 4 per cent.

"The rate of interest depends upon the state of the money market. The aim is to grant borrowers their credit at the lowest possible rate. When the Landschaften were organized they possessed a capital of their own. They were simply credit agents. From savings in the cost of administration they now have a fund of \$14,000,000."

"The Prussian Landschaften," declared Dr. Kapp-Konigsberg, General Director of Landschaften, to the American Commission, "claim to hold the leading position in the department of rural credit. In their unselfish, public-spirited labors, free from every tendency to profit-making, they render the most important services to the state by preserving a vigorous and healthy agriculture. The extensive privileges granted to them by the state correspond to the position of the Landschaft in national organization. They have thus in the first place, in establishing their claims, the right of seizing the mortgaged lands without adopting legal procedure. The claim of the Landschaft is in this case a full proof of debt. The Landschaft has a similar right of seizing moveable property. The right is of great practical importance in accelerating the collection of overdue mortgage interest. A legal seizure can at once take place on documentary proof by the syndics of the Landschaft. The Landschaft can also on its own authority administer pledged lands both for collection of overdue claims and also for seizure when there are legal grounds. The Landschaft is entitled to administer mortgaged lands, and can also on

application to the courts administer lands which are not mortgaged.'

"As the security of the mortgage bonds depends in the first instance upon the character of the land mortgaged, it is of primary importance that the work of appraising be done with the utmost care. The valuations are first made by officials of the *Landschaft*, then tested by committees especially appointed for that purpose, and then, in doubtful cases, revised on the spot by higher officials. But not even then do these valuations become operative. They must be approved by the Minister of Agriculture and the King. The capital advanced is at the maximum two-thirds of the estimated value. *Landschaft* credit in Prussia rests upon the trustworthiness and soundness of the valuations.

"Apart from mortgage credit, the *Landschaften* make provision for personal credit. This was first accomplished in the forties of last century by establishing *Landschaft* banks, which are independent but sympathetic institutions. Their first service was to convert into ready money the mortgage bonds which the borrower received as his loan. Their duty was to finance the mortgage bonds. They also sought to maintain the market rate of the bonds."

The special merits of these associations are summarized by Mr. J. R. Cahill in his excellent report for the British Government in the following terms:

- (1) They enable landowners to mobilise, as it were, their landed possessions by the creation of bonds passing into the general system of securities; instead of only being able, like English landowners, to provide a

mortgage security of very restricted currency, German landowners have the advantage of being able to convert a mortgage charge into a security realisable at any time in the general market.

- (2) Loans granted are not subject to recall.
- (3) The rate of interest is as moderate as possible, being as closely as possible related to the prevailing market rates for money.
- (4) The bonds being irredeemable by the holder, the rate of interest may not be raised.
- (5) The right is conceded to reduce the debt by payments made at the mortgagor's convenience.
- (6) The necessary extinction of the capital debt is accomplished gradually.
- (7) The costs for valuation and other charges are low.
- (8) Their administration is at once relatively inexpensive, and their office-holders highly qualified for their work.

2. The German Mortgage Credit Banks.

The Mortgage Credit Banks, of which there are sixteen in Germany, are all established under the guarantee of some public authority, either a state, a province, or a district within a province. While not restricting their operations to farm mortgages, they all do a large farm mortgage business. They have a total of outstanding loans of \$500,000,000, one-half of which is a land mortgage, the other half being to local municipal or communal authorities. The funds of these institutions are obtained—

- (1) By issue of guaranteed bonds (rates of interest from 3 to 4 per cent.).
- (2) Deposits.
- (3) Grants or loans from the State or authority concerned.
- (4) Payments by borrowers into sinking fund account.
- (5) Accumulated funds.

These banks were specially designed to serve the need of the medium and small landowner, making loans:—

- (a) At moderate rates;
- (b) Not subject to recall;
- (c) Payable in small fixed annual instalments, with power to pay as much more as the borrower desires.

These banks are usually managed by a special committee in some cases appointed by the State, in others either wholly or partially by the Assembly or Council of the public authority guaranteeing the liabilities of the bank. They are, strictly speaking, public institutions. Any profits accruing from the operation goes to the guaranteeing authority.

3. The German Savings Bank.

The German savings banks are mortgage credit institutions of very great importance to farmers. Their total investments in farm mortgages in 1910 were about \$850,000,000. In some parts of Germany they are the chief source of mortgage credit for the small farmer. Most of these institutions are public savings banks, established, managed and

guaranteed by the public authority. In 1910 there were 2,844 public savings banks of this type in Germany, with 7,404 branches.

The deposits in these banks reached the sum of over \$4,000,000,000.

These institutions, being usually under local control and management and not subject to central control, are allowed to fix a rate of interest to suit their own convenience.

The result is they pay comparatively high interest on deposits, as high as 4 per cent. There is no combine to fix prices paid on deposits. The result is the savings of the district go to the banks, and loans are made to those people living in the same district. The guarantee of the District Authority makes them absolutely safe.

The charges made on loans are also slightly higher than in the case of the *Landschaften*.

Of the total deposits of over \$4,000,000,000 in 1910, over \$2,500,000,000 was invested in mortgages, of which \$850,000,000 was invested in farm mortgages.

These institutions are of such great importance in connection with agricultural credit that the following brief history of them, taken from the report of Mr. Cahill, will not be without interest:—

“The earliest German savings banks were founded to serve as institutions for safeguarding the poorer classes against absolute poverty by providing a place for the safe deposit of small sums of money until such should be required in bad times. Established in connection with the efforts to reform the poor laws, they were to be regarded rather as

philanthropical institutions. The first was founded at Brunswick in 1768, and the second at Hamburg in 1778, these being followed by banks at Oldenburg (1786), at Kiel (1796), at Altona, Limburg, and Gottingen (1801), at Carlsruhe, Baden, Schleswig and Limberg-on-Loehr (1816), at Glucksburg, Lubeck, and Kappeln (1817), and at Berlin, Stuttgart, and Apenrade (1818); further urban banks were established in rather rapid succession. But the savings banks lost this character of philanthropy early in the nineteenth century, and have developed along the more general lines of institutions for the furtherance of thrift. They have been established usually by and under the guarantee of public authorities; and in normal cases do not aim at profits beyond the obtaining of an adequate interest upon money deposited with them and the payment of the expenses of management. Any surpluses remaining after meeting these charges and making suitable appropriations to reserve are applied to objects of public welfare. In primary aim they are distinguishable from banks in the ordinary sense of the term; they seek deposits, not in order to be in a position to grant credit for their own profit, but to foster thrift, and only to utilise deposits for investments in the interests of the depositors themselves. But while there is this distinction in their aims, German savings banks constitute, by reason of their unexampled development and freedom of investment, credit sources of great importance. Not being obliged to deposit their funds at interest with the State Treasury, or invest in stocks and shares only, as such banks are con-

strained to do in some other countries, but seeking to obtain on investments the best returns consistent with the absolute security of their funds, they have lent a very large percentage of their deposits on mortgages, a considerable proportion of which have been rural property."

This will serve to indicate what can be done in a public way to stimulate industry by the use of the small savings of the poor if directed to proper productive uses.

Similar institutions of a public character are found in almost every country in Europe.

4. The Credit Foncier of France.

The Credit Foncier is a joint-stock financial institution subject to the legislative provisions of the government. It has a capital of 200,000,000 francs (about \$40,000,000), divided into shares of 500 francs (\$100) each. The additional capital required is raised by the issue of bonds repayable in annuities in a maximum period of 75 years. Mortgage loans are made on houses and town property and on farm lands. These loans are made in one of the following forms:—

(1) Short term loan or mortgage, not to exceed nine years, not repayable by amortization and not repayable till the end of the term. The present rate of interest on these loans is 4.65 per cent.

(2) Long term loans, which run from ten to seventy years; repayable by amortization or at the pleasure of the borrower. The rate of interest at present on these loans is 4.65 per cent., or with amortization 4.80 per cent.

(3) Current account loans on mortgage guarantee by opening what is called a mortgage line of credit. The rate on these loans is about one-third higher than that on ordinary mortgages, and the loan is repayable in six months.

In addition to the loans made on mortgages, loans are made to municipalities and public institutions. The rate of interest on these loans is less than on either of the foregoing. These loans are made for a period of from one to nine years. Mortgage loans are made for one-half the determined value of the property mortgaged.

Since its origin in 1852 the Credit Foncier has loaned more than 9,000,000,000 francs (about \$1,800,000,000), and has now outstanding over 5,000,000,000 francs (\$1,000,000,000), more than half of which is in mortgages.

The share capital of the bank was created to give security to the land mortgage operations. All mortgage loans are covered by the issue of bonds, which are sold in the open markets of the country. The borrower is paid in cash at current price of bonds.

The features worthy of special attention is that the Credit Foncier provides both the short term and long term credit. A mortgage credit being established by a property valuation for any client, money can be borrowed against this, interest being charged only on the money advanced.

In addition to the institutions described above, there are innumerable others doing business in agricultural land mortgages in various countries in Europe suited to the peculiar needs of the locality

which gave them birth. A mere catalogue of them would fill several pages. In Germany there are joint-stock company banks on a very large scale; in Italy also a great variety of financial institutions, including the savings banks, do a similar business on a large scale, some with and some without state assistance. The same applies to practically every other country.

In general it may be said that the States of Europe have recognized the fundamental position of agriculture, and have given aid wherever aid was really needed to put agriculture in an economically sound position.

III.—GENERAL CONSIDERATIONS

In proposing any scheme to give to the farmers of the country money at cheaper rates of interest than at present, certain facts must be kept in mind.

First and foremost of these is the fact that money will have to be found from sources outside the Province. Ultimately, this may not be so. When a surplus of wealth in the Province or even in the Dominion becomes available, internal competition will help to relate the rate of interest to the security offered. The date for this, however, is a good way off yet. The advance in price of city property, due to the growth of the towns and cities, makes possible interest rates beyond those which would otherwise be normal, while the speculative value of property, making the chance of large returns possible, tends to turn local funds in that direction.

The suggestion as to plans must therefore be made in the light of the necessity to bring in money from outside sources, and on a basis of security to attract the most conservative of money lenders.

Second, it must never be forgotten that the rate of interest paid will depend on the type of security offered. The security behind any practicable scheme must, therefore, be of such a character as to make it attractive to those who prefer small interest and good security to larger interest with a speculative element. In other words, it will be absolutely necessary to secure funds from those who invest money on what is practically a trust basis. We are so far from the financial centers of the world that adequate machinery, unlike the tra-

ditional and well understood type, must be used, while supervision of a kind to satisfy the most conservative will be necessary. Even in Europe, where this type of credit is so well understood, wherever interest rates are to any considerable extent below current business rates, all such precautions are necessary. In this connection the following facts, already stated in the body of the report, must be remembered:—

1. For long term credit the European farmer is usually paid in bonds, and he must take the price for these bonds forthcoming as a result of a public sale. The rate of interest quoted must therefore be considered in relation to the price the bonds bring on a sale. The Central Landschaft Mortgage Bonds were quoted on the market on the dates indicated below as follows:—

	4 p.c.	3½ p.c.	3 p.c.
Oct. 1, 1912 . . .	96.70	87.50	79.50
Dec. 31, 1912 . . .	95.30	86.10	77.60

The loss due to the sale below par spread over the years for which the bonds have been issued raised considerably the rate of interest. For example, a 4 per cent. thirty year bond selling at 96 really pays 4.23 per cent. due to the loss on the sale.

2. In most places, particularly in Germany, local funds are available for short term loans, and on a co-operative basis. If more money is required, it is usually found through the central bank from another local society where the supply is greater than the demand. The unlimited liability which is associated with these institutions makes the loans affected "ridiculously safe," to quote an authority

on the subject. As it has become a tradition as well as a state regulation, in most places, that local money must be put to local uses, the rate of interest on such funds is not much affected by the rates in the world markets.

3. The value of the co-operative system having been established and its security known, the small savings of those who, because their money has been hard earned, are naturally conservative, find a secure investment through this system. These small savings, which would otherwise in all probability lie idle, are the real source of supply for small farmers. To a limited extent also the same may be said of the guaranteed bonds of many of the mortgage institutions.

4. In most places these institutions have one or both of the following advantages: (1) government supervision; (2) government subsidy. France affords an outstanding illustration of the latter advantage. The French Government, as before stated, compelled the Bank of France to make a gift of a large sum in the beginning and an annual allowance from its profits for the purpose of assisting agriculture. ✓

5. The credit societies have through the Central Bank access to a bank of issue. In most countries in Europe money is available directly from such banks under reasonable regulations in connection with the deposit of securities. When more money is required, therefore, than the Central bank has as a surplus from the local societies, there is available a source of supply which renders it unnecessary to recall loans or restrict business, as is usually the

case with banks in this country. In some countries the normal condition for the issuing of money under such circumstances is similar to that provided by the Dominion Government under abnormal conditions, such, for example, as the special issue of paper money on recognized security.

6. Last, but not least, it must always be borne in mind that the vast majority of these credit societies, as well as the mortgage credit associations are managed without any idea of profit, or if any profit does accrue, it is placed in a reserve fund to make more secure its outstanding obligations, and is not divided among shareholders. The public utility element, accompanied by conservative management and the strictest kind of supervision, are fundamental facts in relation to the strength of the security, and hence in relation to the rate of interest.

In the plans suggested below we have kept in mind the fact that the chief difficulty in connection with money for the farmers in our Province is in connection with the short term loan. Usually money is available for mortgage purposes, if not at a reasonable rate of interest, at least for a sufficient length of time to give the efficient farmer a chance so to reduce his obligations in the mortgage that it is possible to have it renewed on any balance due.

On the other hand, the ordinary business of the farmer does not adjust itself readily to the methods generally pursued by our banks in making loans, for two reasons: (1) The loan is not for a sufficient length of time. The ordinary business adjusts itself
✓ to the three months' period usually followed by the banks. That period, however, is not sufficient for

the farmer who is dependent upon the annual products of his farm for money loaned in connection therewith, excepting perhaps, the well established farmer whose credit could not be questioned. (2) The right of the bank to recall its loan at the end of the short period for which the loan is made is often a source of embarrassment. This is not the fault of the bank as such, but, from the agriculturalist's point of view, of the system. The system is conceived in the interest of commercial business, and not in the interest of agriculture. There is also the further difficulty that the bank is not interested in making loans in such small sums as the average farmer requires, and therefore if the loans are made at all they must be made at a higher rate of interest than that charged on ordinary commercial transactions. In spite of the fact that the Canadian Bank Act makes it illegal for money to be loaned by the banks at a greater rate of interest than seven per cent., it is not unusual for the rate on these small loans to go even as high as twelve per cent., particularly in outlying localities. This statement is not necessarily offered as a criticism. The fact is, the amount of business to be found in many of these small localities would hardly warrant the office of the bank being opened were the business done on a normal basis. The unsuitability of the commercial banks to the needs of the farmer, particularly the small farmer, has made necessary in every country in Europe the foundation of financial institutions for the express purpose of financing agriculture.

Any solution, therefore, of the problem which

- ✓ does not provide for the short term loan would be an absolutely inadequate solution. It has been already suggested that the small credit associations for personal credit, so common in Europe, would
- ✓ not be suitable organizations to start in our Province until there is a much greater density of population and until the social units are more closely related to one another. The plans outlined below have in mind, therefore, the idea of working the short term and the long term credit, jointly, on the basis of mortgage security.

IV.—POSSIBLE SOLUTIONS.

Keeping in mind the fact that no solution of the problem of agricultural credit would be a final one which did not make provision for both long term or mortgage credit, and short term or personal credit, and that our distance from the money markets makes some specially sound form of security necessary, we beg to suggest the following plans in broad outline, expressing at the same time the hope that in a detailed study of them one may be found suitable for the purpose. We are quite aware of the fact that in the present state of the money markets of the world it will be exceedingly difficult to put any plan into execution. On this account, therefore, we express the hope that in the interim between the present and the restoration of normal financial conditions a careful study of the actual working details of these plans will be permitted.

It will be seen at once that each of the solutions suggested is based on the mortgage bond idea. The reason for this is the belief that this is the only method by which the farm mortgage can be made a sufficiently liquid asset to meet the desired end. The mortgage bond has the advantage of offering a desirable investment to the small investor, and makes possible a form of security which should attract the most conservative, once the value of the security becomes resognized.

PLAN I.

A Land Mortgage Credit Association after the pattern of the German Landschaften, strictly co-operative in character.

In the actual working of this plan it might be either based on unlimited liability, as are most of the German organizations, or the liability might be limited, as in a bank, to a certain multiple of the share capital or to a percentage in excess of the obligations incurred. It would be absolutely necessary to have some form of multiple liability if any reduction in interest rate is to follow.

To bring such a plan into operation certain steps would be necessary:

(1) The organization of a series of community associations, formed of borrowers, who would join their credit for mutual help either on an unlimited liability basis or some form of multiple liability, would be the first step.

(2) Above the community associations a central body would be organized, which would act as a clearing house for the community associations, exercise supervisory control over them, and be the medium for issuing bonds to cover their borrowings. The municipality might be made the unit of organization.

(3) It would be necessary to raise money by the sale of mortgage bonds, fixing the rate of interest and accepting such price as could be obtained just as any municipality disposes of its bonds. Money might also be obtained by taking deposits. The original capital to start with might be raised by the

sale of a limited number of shares on which a fixed dividend only would be paid, as in the case of certain insurance companies.

In the operation of the plan certain principles should be followed:

(1) Loans should be made only on unquestioned security and only on a fixed rate of valuation. ✓

(2) Loans should be made only for productive purposes and not for speculative ones. ✓

(3) All mortgage bonds should run for a fixed period of years, payable by annual instalments covering both principal and interest. In Europe this period varies from 25 to 65 years. A shorter period would probably suit our requirements, from 10 to 25 years.

(4) The total borrowing power based on mortgage valuation of any property being fixed in a rational manner, part of the credit might be used for capital outlay on permanent improvements and part could be used for short term loans, say up to one year.

(5) Apart from payments of a fixed dividend on original share capital, it should be a non-profit-sharing institution. All profits should go to a reserve fund to meet special emergencies and to establish the credit of the association.

(6) Its operations should be strictly supervised by competent inspectors.

There are certain obvious advantages in such a scheme:

(1) It would be free from that paternalism ✓ which in the public mind is associated with Government promoted institutions. Being managed by a

board representative of the persons interested in its success, a spirit of independence would be developed and an experience in business methods would be obtained which would greatly benefit all concerned.

✓ (2) It would be free from even a shadow of political control.

(3) It would confine its operations to the problem in hand, viz., the promotion of agriculture. It would thus be free to co-operate with municipal or district agricultural organizations having the same purpose in view.

(4) It would of necessity begin in a comparatively small way and would grow as experience proved its value.

There are two obvious disadvantages:

✓ (1) There would be difficulty in securing capital sufficient to make the organization effective for the purpose for which it was devised, the reason being that the values of our lands are not yet well established. In Europe the value of land is based on the average income obtained over a period of years, and ✓ can be accurately determined. No such exact valuation would be possible with us.

(2) For the reason above stated, the time required to call such an organization into being in a large way would be considerable. It would thus be some years before the scheme would become effective on a large scale.

Further, the reasons which would make the obtaining of capital difficult would also make it difficult to obtain money at a reasonable rate of interest.

The organization of such an association from a

legal point of view would not be difficult. With variations, it would follow the lines of a joint-stock company having, however, strictly defined limitations as to business permitted, and as to the manner of doing it. The right to receive deposits is essential; to secure this right would require Dominion legislation.

PLAN II.

A Land Mortgage Credit Association similar to the above, but with a Government Guarantee sufficient to bring it into being and covering its operations for a sufficient term of years to establish it upon a permanent basis.

Under such a plan it would be necessary to have:

(1) A central organization managed by a commission appointed by the Government. This commission would be gradually replaced by one appointed by the association itself, when the term of the guarantee expired. After the expiry of the term of guarantee the institution would become independent. ✓

(2) Local associations on a co-operative basis as in Plan I., but under the direction and control of the central organization. ✓

The principles to be followed would be identical with those under Plan I.—co-operative and non-profit-sharing.

Money would be raised in the first instance by an issue of guaranteed bonds, the same to be continued until the fixed period for government assistance expired. Deposits could also be obtained. The ✓

sale of shares could be made in a fixed ratio to the initial guarantee.

The obvious advantages of Plan II. would be as follows:

✓ (1) Under normal conditions of the money market it would have immediate recognition. So far as the obtaining of money is concerned it would be in the same position as a railway with guaranteed bonds.

✓ (2) It would rapidly grow into an institution large enough to form a check on interest rates charged by loan companies, thus affording the relief required.

(3) It would be able to attract deposits both because of the rate of interest it could pay and the unquestioned security it could give.

There are also certain obvious disadvantages:

(1) There would be the possibility of political interference.

(2) To a limited extent it might impair the credit of the Province and make it difficult to obtain money for ordinary purposes of Government.

The greatest danger to both the foregoing plans would be incompetent management. Should the management get into incompetent hands it would be fatal in either case.

On its legal side the organization would follow the same lines as those outlined for Plan I.

PLAN III.

A Joint-Stock Company which for certain privileges conferred would accept limitations as to interest charges.

The outstanding example of this type of institution is the Credit Foncier of France. As previously pointed out, that institution is subject to legislative restrictions. It is a joint-stock company under government control by reason of the privileges granted by the Government.

The plan would be worked out in the following way:

(1) A company should be organized with sufficient capital to give it a reasonable start. All the capital should be paid up.

(2) The company should have the right to issue bonds, covering mortgages, the mortgages being based on a strict property valuation, and to receive deposits.

(3) To assist in securing money for bonds at a reasonable rate, and because the capital is all paid up a government guarantee might be given to bonds covering mortgages up to a fixed ratio of the paid up capital.

(4) In return for this advantage a rate of interest on farm lands mortgages could be fixed in a definite ratio to the rate paid on bonds, the difference to be sufficient to cover expenses of management, to pay a reasonable dividend on capital invested, and to put aside a reserve fund for emergencies.

(5) The scheme, as in the case of the Credit

Foncier, should be arranged to cover both long term and short term credit.

(6) The business should be limited to land mortgage business, town and country.

(7) It would also be necessary to have government supervision and audit.

The principles governing would be practically the same as those stated for Plan I.

The legal aspect of the organization would be fairly simple. The Government should be represented on the Board of Management. If for practical purposes it should be found necessary to have a bank in connection with it, a charter could be obtained in the usual way, or a relationship could be established with one of the chartered banks.

Such a scheme, we believe, is practicable, and if so, has obvious advantages:

(1) The business being confined to conservative lines would assuredly attract capital from those willing to take small interest in return for good security. This would be enormously strengthened if backed by a partial guarantee.

(2) The fixed margin allowed for charges and dividends on capital should result in conservative management and a consequent careful administration.

(3) The regular inspection of its operations by an officer named by the Government would also tend in the same direction.

(4) Although working under restrictions it would be sufficiently private and remunerative to call forth personal effort.

The obvious disadvantages are those always associated with privileged corporations.

PLAN IV.

A Government Land Mortgage Bank similar to those now existing in Australia and New Zealand.

Such an institution should have the right to do mortgage bond business on the usual basis, and in addition the ordinary banking operations necessary in the conduct of the mortgage business. It could also extend its operations to include the sale of all types of debentures of a public character, such as Government bonds, School bonds, and Municipal bonds, etc., in general act as a public utility institution in the public interest. In fact, with a properly organized board it could be made to meet all the requirements of a Local Government Board.

Such a scheme would necessitate:

(1) A central mortgage institution with banking privileges (not necessarily the issuing of money, though that would be a decided advantage).

(2) The establishment of local branches in various parts of the Province.

The necessary capital would be raised as follows:

(1) A foundation capital provided by the Government.

(2) The issue of mortgage bonds to cover loans made on lands.

(3) Deposits by the Government and citizens.

The organization on its legal side should not be very complicated, as it would follow traditional lines. The right to issue money and receive deposits would necessitate acquiring powers from the Dominion Government, otherwise the powers generally con-

ferred under the Companies Act would seem to meet the case. The pathway has been well blazed in New Zealand and Australia, as well as in various countries of Europe. The management should be in the hands of a non-political commission.

The regulations with respect to security of loans, valuation of property, supervision of business, and use of loans, already indicated under Plan I., should be followed.

Loans should be made on a rate of interest determined by the amount obtained for the mortgage bonds in the open market, the difference in interest being sufficient to cover charges and to create a reserve fund. The profits on the banking side should accrue to the Province for public purposes.

There are obvious advantages in such a scheme:

(1) If properly safeguarded, particularly in the valuation of property, it would almost immediately secure recognition in the markets of the world and make possible a rate of interest somewhat in relation to that paid by the Government for its own loans or by railway corporations with government guarantee.

(2) It would be possible from the inception of the scheme, assuming normal money markets, to begin business on a scale somewhat commensurate with the needs of the Province.

(3) It would still further have the decided advantage of setting the pace for interest rates in the Province, as private corporations would, in some measure at least, be compelled to follow suit. As already pointed out, one of the great advantages

of the land mortgage system of Germany is that it determines the rate of interest in spite of the fact that it does only a portion of the mortgage business.

(4) It would attract the money of small depositors, who would be amply satisfied with the security.

(5) It would solve at one stroke the question of long term and short term credit. The Government could make available the knowledge of the Land Titles Office with respect to titles and an individual credit could be established.

(6) But, greatest advantage of all, it would provide a banking organization fundamentally provincial in its outlook, the interests of which would be to bring money into the Province and keep it here; a bank whose funds would not be subject to emergency calls outside the Province.

There are also obvious disadvantages:

(1) Until firmly established it would impair the borrowing power of the Province for ordinary purposes, its liabilities being regarded as those of the Province. The experience of New Zealand and the states of Australia is a good guide in the matter, and proves that competent management and strict supervision would soon remove this objection.

(2) It is equally obvious that there is a political danger also. It would be fatal if the management of such an institution became tinged with partizan politics. In Europe it has been found possible to secure such non-partizan management; so far as we are aware, no change of political domination has been made in such institutions in New Zealand and Australia. It should be possible to find a type of

commission control non-political in character in Canada.

(3) Perhaps the most serious disadvantage is that it would partake of paternalism and would have a tendency to foster a spirit of reliance on government institutions, a spirit already very prevalent amongst us.

With regard to the whole four plans there is one final suggestion. With each could be associated a Life Insurance scheme covering the amount of the long term loans so arranged that in case of the death of the borrower the debt would be automatically paid. The premiums could be arranged for as part of the loan or could be paid annually, the amount decreasing as the debt decreased. The actuarial details could easily be worked out if it were deemed necessary.

One concluding word: Your commissioners beg to express the hope that a means of securing the relief sought by the farmers of the Province may be found in one of the foregoing suggestions. We are aware that difficulties may present themselves under any scheme, particularly if banking facilities are to be associated with its organization. Such being the case, it may necessitate joint action on the part of the Provincial and Dominion Governments, due to the fact that our banking laws are subject to Dominion legislation. In our judgment no plan would be complete that did not carry with it at least the right of securing deposits in local centers from persons who felt disposed to have their money utilized for the purposes of agricultural credit. The essence of the European methods studied is

found in the decentralization of banking privileges in the interests of the local community. In our judgment the centralizing of financial interests in great banking institutions in this country is, from an agricultural point of view, a movement in the wrong direction. We see a further difficulty in the fact that in the newly-settled portions of the country, persons who perhaps will need help most, that is, the homesteaders, will not possess title to their property sufficient to give the necessary security. To give any relief to such it would be absolutely necessary that some arrangement should be entered into by which money borrowed for improvements would become a first charge against the land, even though the land were to continue in the possession of the Dominión Government.

Respectfully submitted,

H. M. TORY,

A. BRAMLEY MOORE.